



*Andrew Junkin, CFA, CIMA, CAIA
Managing Director & Principal*

March 4, 2009

Mr. Joseph Dear
Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Global Equity – Policy Ranges for Emerging Manager Programs

Dear Joe:

You requested Wilshire's opinion with respect to Staff's proposal to consolidate the delegated authority and policy ranges of the Manager Development Program and the Emerging Manager Fund of Funds Program. Staff proposes a single policy range and delegation of authority for the combination of the two programs with a range of 1-5% of Global Equity assets.

Recommendation

Wilshire recommends that the Investment Committee approve Staff's proposal. The consolidation will allow Staff more flexibility to select and fund qualified emerging managers.

Background

Due to the nature of the MDP program, where CalPERS takes equity stakes in emerging managers as a part of the overall portfolio management relationship, the opportunity set is considerably smaller than the overall universe of emerging managers. Not all emerging managers are willing to give ownership stakes in their firms to outside investors. To address this issue, the Investment Committee approved the Emerging Manager Fund of Funds program, where outside managers allocate capital to emerging managers with the total portfolio being benchmarked against appropriate indices.

Currently, the policy range on MDP is 1.0-5.0% of Global Equity assets. The policy range for the Emerging Manager Fund of Funds program is 0-0.75%. Therefore, the current consolidated range is 1.0-5.75%. Staff's proposal is that the consolidated range be 1.0-5.0%. While the minimum is unchanged, the upper limit is slightly lower than the

current consolidated range. However, the current amount invested in the two programs is approximately 2.7%, so the upper limit is not at issue.

Imbedded within this consolidation is an implied increase in the amount of delegation to the Emerging Manager Fund of Funds program. At the extreme, this would be a substantial increase from the current max of 0.75% to 5.0%. However, the Emerging Manager Fund of Funds program is far more diversified than MDP is and is a more effective deployment mechanism for emerging manager investment. Furthermore, this does not prevent additional MDP investments.

From a risk standpoint, Wilshire views this as risk neutral from both a total risk and tracking error standpoint. Fees may be slightly higher within the Emerging Manager Fund of Funds program and the opportunity to participate in the equity appreciation is forgone.

Conclusion

Wilshire recommends that the Investment Committee approve the consolidation of the delegated authority and the appropriate policy changes to implement Staff's proposal. The changes will allow Staff greater opportunity to deploy capital in the emerging manager space but will not restrict their ability to continue partnering with promising firms in MDP.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Adam J. Smith". The signature is fluid and cursive, with the first name "Adam" and last name "Smith" clearly distinguishable.